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## Glencore-Xstrata: One head! One price! Let's get together and feel all bad!

[gbnews.ch/glencore-xstrata-one-head-one-price-lets-get-together-and-feel-all-bad/](http://gbnews.ch/glencore-xstrata-one-head-one-price-lets-get-together-and-feel-all-bad/)

Alban Brisset

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**Shareholders general meetings** which are going to confirm the merger of two Swiss major companies have been postponed until September. This story started in February, 2012 and would create the advent of a hydra, one head would be the biggest trader in the world, the other one would be the fourth biggest extractive company for copper, the fifth for nickel and finally the first regarding coal 'energy'. As soon as we look after informations concerning Glencore International PLC, figures give vertigo!



Indeed, Glencore, whose head office belongs to Baar in the canton of Zug, one year after its initial public offering in London and in Hong-Kong achieved a 186 billion dollar turnover in 2011 (which was one of **the biggest IPO in the last century**). It should exceed **200 billion dollars after the merger (twice Nestlé is)**. The company was created in 1974 by Marc Rich and be, originally, operated in the non-ferrous and ferrous metals market and crude oil. It diversified in the 80s into the markets of cereal, then coal and continues to look for a bigger vertical integration. The 83.1 % of Glencore's capital is held by its management and its employees. Glencore International is in **3 fields of activity**:

Metals and minerals market: Zinc-Copper-Lead-Alumina-Ferronickel-Cobalt-Steels-Specials steels and finally the alloys of Silicon. It represents, in terms of market shares: **60 % of the zinc, 50 % of the copper, 38 % for the alumina**. It is necessary to underline that with the mines of Kansuki and Mutanda, Glencore represent **40 % of the Cobalt's production in the world**.

The Energy market: Oil-Gas-Thermal Coal. **28 % of the world's coal**.

The 'soft' (euphemism) commodities market. With in particular 9 % of the wheat market.

In the other side, Xstrata celebrated its tenth birthday in the London Stock Exchange in March 2012, is present in 20 countries and with a workforce of 70 000 people. Xstrata specializes in alloys, coal, copper, nickel and zinc and mining technology. It dates from 1926 as Sudelektra AG, it was rebrended as Xstrata AG in 1999.

The CEO Michael Davis was appointed in October, 2001. Xstrata is held at the level of 33.65 % by Glencore International plc, 4.76 % by BlackRock and 10.35 % by Qatar LLC holding company.

In figure, Xstrata is in 6 fields of activity:

Alloys Ferrochrome and vanadium market. Xstrata is the highest producer of ferrochrome in the world.

Coal, Xstrata is world leader in the production of coal necessary for power plants and one of the main actors for that demand for steelworks. Xstrata produced 100.5 million tons in 2011 and plans an increase of a third by 2035.

Copper, Xstrata is the fourth world producer and the leader in the recycling of metals. And its production should increase by more than 50 % before 2015 with more than 1.5 million tons a year in the next three years.

Nickel and cobalt, Xstrata is the fifth largest nickel producer.

Zinc, Xstrata represents the first mining group in this sector.

Expertise in the mining industry, Xstrata has 500 sites in 50 countries extracting 8 million tons of minerals per year.

Besides difficulties in finding data about these two companies, it is very difficult to estimate the annual productions and the capacities, secrets and confidentiality are the norm. Nevertheless, if we concentrate on the copper market:

Xstrata's production was in 2011, 1 407 200 tons of copper and a current capacity of about 15 million tons. Glencore unveil a capacity of 1 165 200 tons of copper and 180 000 tons of concentrated. **The 'El Pachon' project of Xstrata has been estimated 13 100 000 tons of concentrated.** We thus arrive at a production capacity of more than 17.6 million copper or concentrated. The international copper study group (ICSG) plans a total capacity of 26.2 millions before 2015. We thus expect a real strengthening of the position of Glencore. Both actors had previously terminated from distribution agreements. But Glencore is going to become a major mining actor which will control the sale of its production and so the whole price of its raw materials. According to the copper investing news in an article of June 20th, 2012, Xstrata is fourth world producer with a 889 000 ton production and Glencore International produced in 2011, 628 000 tons for a total of 1 517 000 tons, knowing that Glencore is going to relaunch its Indonesian production after a fire in June, 2012. The last press release of the ICSG dated June 20th 2012, specify that the production increased **by 3.7 % in the first quarter 2012** and that this strong increase is mainly due in China, 9 %, but especially **Africa with 12 %**. Xstrata is not in Africa, Billiton neither.

This merger which is doubtless one of the most important ever, will have several consequences:

- Glencore will benefit from the more positive image of Xstrata.
- But the wish of Glencore is also to strengthen its dominant position: Glencore can thus benefit from the expertise of Xstrata in the countries where Xstrata could not operate before. Glencore will still strengthen its position in the countries where both actors are already present.
- Glencore will set the price of essential raw materials, with the blessing of financial markets. Southern countries would prepare for a dark future.

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